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PRE-BUDGET SUBMISSION  
TO THE HONOURABLE FRANK MILLER  
TREASURER OF ONTARIO  
MARCH 19, 1982



PREPARED BY:  
URBAN DEVELOPMENT INSTITUTE  
(ONTARIO)

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PRE-BUDGET SUBMISSION TO THE HONOURABLE FRANK MILLER, TREASURER OF ONTARIO  
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SUMMARY

Background to this Presentation

The re-emphasis of points made by the Housing and Urban Development Association of Canada in its presentation on March 16 is with intent, to demonstrate the unanimity and gravity of our shared concerns.

The State of the Industry

1982 is going to be even worse than we feared last year. The ripple effect of our Industry's shut-down is all ready beginning to cause devastation among the many dependent industries. We are dismayed to see that the senior governments have apparently decided to abandon the practice of earlier years, of utilising the Development Industry's immense "pump-primer" effect to stimulate economic activity. Uncertainty, leading to lack of confidence, is the root cause of our Industry's problems, and those of the entire Provincial economy.

General Recommendations

Leadership by Example

The Provincial Government should cut back all inflationary expenses to one half the previous year's inflation level, require municipalities to do likewise, and call on the other Provinces and the Federal Government to follow suit.

A Public-Confidence Communication Programme --

The Provincial Government should undertake a massive, confidence building communications programme to shift public consciousness from pessimism to optimism about the Province's present and future economic potential.

Specific Recommendations --

- a) The O.R.C.L. Programme should be extended, and combined with some sort of MURB provision to expand its application in the major metropolitan areas.
- b) Interest rate insurance should be provided through the Ontario Mortgage Corporation to rebuild consumer confidence in the mortgage market.
- c) A first-time buyer grant should be instituted to stimulate the housing market.

Specific Recommendations --

- d) Low-interest bearing provincial bonds carrying Provincial income tax exemptions should be issued through O.M.C. to build a pool for issuing low-interest mortgages.
- e) The Capital Tax should be deferred for development companies suffering losses.
- f) The Provincial Sales Tax on building materials should be removed.
- g) The Province should continue to push the Federal Government to allow private mortgaging through R.S.P.'s.
- h) The Treasurer should call for a moratorium on inflationary regulations throughout the Provincial Government and in all municipalities.

### Background to this Presentation

It will be readily apparent that there are many similarities between this Brief and the one presented to you on March 16th by the Housing and Urban Development Association of Canada, Ontario Division.

This is the logical consequence of the fact that as representatives of related segments of our Industry, we share many of the same concerns.

Because of the unusual gravity of the present situation facing our entire Industry, our Associations met prior to the two submissions to consider the points we felt we must emphasize to ensure that the unanimity of our shared concerns was clear and unmistakable.

Where it occurs, therefore, this re-emphasis is by intent. On the other hand, where there are differences in our Briefs, this is merely a reflection of the fact that our concerns may vary regarding certain specific problems, as may our recommended solutions.

### State of the Industry

In our presentation to members of the Provincial Cabinet on November 19, 1981, we expressed our deep concern over the state of our industry at that time -- and more importantly, about the even gloomier prospects for the coming year.

Since you were present at that meeting, we need not repeat the details. You are well aware of them. We do, however, wish to reiterate the major thrust of that presentation, updated to the present time.

In our brief we stated:

The Ontario housing and development industry's best prospects for the coming winter and 1982 amount to a disaster.

We view the situation with justifiable alarm. The dismantling of our Industry is already starting. In the coming year we estimate the loss to the Province will amount to well over \$2 billion in housing production, and over 70,000 person years in employment.

It seem now that our concern was not only justified, but that the Industry's situation during 1982 is going to be even worse than we feared. The trend of housing builders going out of business -- about a thousand in the past couple of years -- is worsening. Last year some 1500 who remained officially in business built nothing. And we have now learned from Ottawa that the

country's recession has been formally recognized. (This was brought to your attention and documented in the HUDAC presentation).

As our industry proceeds to shut down, the ripple effect is also demonstrably taking its toll among the appliance, furniture, and other industries that rely on our activities to generate the business they need to survive. The widely publicized recent bankruptcy of a major drapery supply company -- attributed directly to the absence of new housing -- was but a small forerunner of what we believe will be a growing flood of dependent businesses whose difficulties will become public knowledge in the coming months.

For our industry, recognition of the recession is akin to admitting that it's raining in the midst of a monsoon. If it had not been for the 6-week mini-boom in the spring of last year, and the even briefer artificial stimulus provided by the Federal Government's temporary reprieve of the MURB program, the fact that we are actually in a profound state of depression would have become apparent much earlier. As we have stated before, the statistics resulting from these two anomalies are grossly misleading. Even the word depression does not fully portray our industry's present circumstances.

The development industry -- most particularly the housing portion -- is for all intents and purposes dead.

While it is dismaying to see forces over which we have no control closing down our industry, it is totally dispiriting to realize that our senior levels of government have apparently decided to seek economic recovery through other parts of the marketplace. We find this especially perplexing, in light of the development industry's long-standing position as an economic bellwether, due to its enormous "ripple effect", and its ability to respond to stimuli with unique speed, which have led to its traditional selection as an overall economic "pump-primer". Some institutional investments such as the recent Suncor purchase appear to do nothing for job creation but only bring more strongly the government presence on the money market. The attempts by the Provincial Treasurer to convince the Federal Government to continue the MURB programme, and to pay greater heed to the Province's housing and other economic problems, have not gone unnoticed. We share your concerns and we applaud your efforts. In this vein, we hope the suggestions that follow will be given the most serious consideration as possible avenues for assisting the housing development industry to pull itself out of its current state of depression.

The Industry is doing what it can to emphasize the positive wherever possible -- by keeping up a bold public front, and by appearing optimistic at least about the long run ability of the market to get moving once conditions improve.

The trouble is that we see few signs of improvement in the short or medium term. So while this may help to temporarily keep public confidence from collapsing altogether, we doubt that our efforts by themselves will be enough to sustain that confidence for any length of time -- or more importantly to cause the kind of resurgence that would help to initiate a positive momentum.

The only agency with the means and the power to do that is government.

Ontario's long-range economic strength is not presently in doubt. A substantial short- or medium-term loss of public confidence, however, will not only cause severe damage now, but will impair the long-term prospects and delay their eventuation.

The most serious problem that we -- and the entire economy -- face today is uncertainty. The high level of interest rates is clearly a contributor. But the uncertainty about where they are headed next is the real villain of the piece.

This growing uncertainty is creating a rapidly spreading decline in confidence. People lack confidence in the future of the overall economy, in their particular industries and companies, and in their own jobs. As a result they are unwilling to make decisions on major purchases, which because of their importance require confidence. This is an insidious process, for once under way it feeds on itself. The recent confirmation of the recession will undoubtedly confirm this apprehension even among those who had been struggling to retain a degree of optimism.

How can this process be turned around?

We have two suggestions to which we hope you will give the most profound consideration.

#### 1. Leadership by example

Most of the measures being undertaken by both Government and Industry these days to cope with inflation have only succeeded in institutionalizing it -- such as cost-of-living allowances and other procedures to allow people to "keep up". We must start somewhere breaking this vicious cycle, and the most obvious place is where the leadership buck must stop -- in government.

The Ontario Government, with its forthcoming budget, must demonstrate to the people of this Province that it is serious about breaking the inflationary psychology, by taking the following action:

- a) Set a clear and decisive example by announcing a cut-back on all inflationary increases to half the level of the previous year's inflation rate -- i.e. put a damper on the notion of "keeping up". Allow increases beyond this level only for additions in services, supplies or productivity. Announce the discontinuation of all measures which have tended to officially institutionalize the inflationary process.
- b) Require all municipalities, as creatures of the Province to undertake the same restraints.
- c) Call on the private sector in unequivocal terms to follow suit.
- d) Call on the other provinces and the Federal Government to support your action by doing the same.

To back this up and provide ongoing reinforcement, we recommend a second step:

## 2. A public-confidence communication programme

We recommend that your government undertake a massive, wide-ranging, public-confidence-building communications programme, primarily using advertising, to forcefully and repeatedly "accentuate the positive" -- as in the Buffalo N.Y. "Talking Proud" campaign, only on a much larger scale -- to shift public consciousness from pessimism to optimism.

Obviously it will not be easy. It will be expensive. But your Government has the ability to carry it out. And it has the means.

Where will the funds come from if the overall budget is curtailed as we have suggested? Nothing is more important at the moment that building public confidence in Ontario's economy. The kind of heavy funding that is currently going into the Energy Ministry's "Preserve it, Conserve it" campaign, for example, in the context of the seriousness of the present economic situation, would be much better reallocated to such a general confidence-building campaign. We are certain that in the same way reallocations could be made from other Ministries to provide sufficient funding to ensure that the campaign would have a meaningful impact on public perceptions.

We are talking about the biggest public education campaign the Ontario Government will have ever undertaken -- and also by far the most important. We are talking about the equivalent to several "election" campaigns rolled into one.

We believe it would be irresistably justifiable in terms of its potential benefits -- probably in time returning more than its cost to the Provincial Treasury through the many ways in which economic progress is shared by your government.

Last, but no small consideration, it ought to bring lasting and justifiable kudos to the government that has the initiative and resolution to carry it out.

We now come to measures related to our industry, which we believe you should consider for your upcoming budget, because of the positive effect they would have in stimulating activity and overcoming the current lack of confidence in this area.

We refer specifically to the fact that first-time buyers have been effectively excluded from the housing market for some time, and that now the potential number of second-time buyers -- who have kept the market alive during those two resurgences we referred to that resulted from the two economic anomalies -- has dwindled to insignificance.

#### Specific Recommendations

##### a) The O.R.C.L. Programme

- i) The success of this program clearly indicates the Ministry of Municipal Affairs & Housing should be allowed to continue it.
- ii) In order to expand more successfully its application to the major metropolitan areas, the program should be enriched by combining it with some sort of MURB provision. Whether this is done provincially or federally is less important than the fact that the O.R.C.L. plan will not work in areas where it is most urgently needed without some added incentive of this kind.

The Ontario Government should continue to press the Federal Government for a reinstatement of its program, and should explore ways of creating a provincial MURB as well.

##### b) Interest Rate Insurance

To counter the uncertainty about interest rates, the Province should undertake a programme, through the Ontario Mortgage Corp., whereby some form of interest rate insurance can be

provided. The housing industry is uniquely hampered by consumer concern about the mortgage "roll-over" problem and the rate fluctuations and therefore, some form of insurance would go a long way to rebuilding long-term confidence.

c) First-time buyer grant

A substantial amount of housing development activity could be generated in a relatively short period, by providing a "carrot" to potential buyers who have been holding off because of their uncertainties. A first-time buyer grant, which was secured as a lien on the house and would therefore be recoverable, could achieve the combined effect of removing the uncertainty factor and providing a purchase incentive, if it was handled in the following way:

- a \$3000 initial grant applied to the purchase price (limited to prescribed house-price and income ceilings)
- Three \$1000 grants in years 4, 5 and 6, payable up to the maximum only if required to protect against potential increases in mortgage renewals.

This programme could be tied to first buyers vacating control of rental accommodation, thus helping to increase the availability of rental units.

d) Mortgage Pool

The Ontario Mortgage Corp. should be empowered to issue low-interest-bearing Provincial bonds, under the inducement of a reduced rate of Provincial income tax, in order to build a mortgage pool, which could then be used to issue low-interest mortgages (again within prescribed limits).

e) Capital tax deferral

Housing firms incurring losses in their operations should be relieved of the extra tax burden posed by the capital-intensive nature of their businesses, by making a provision for deferral of the capital tax.

f) Sales tax on building materials

The Provincial sales tax on building materials should be removed to assist the Industry in its attempts to improve affordability, until such time that the housing market clearly demonstrates it can support its re-imposition.

g) R.S.P.'s

The Province should continue to push the Federal Government to allow R.S.P.'s to be used for private mortgaging.

h) Moratorium on inflationary regulations

New regulations are constantly being imposed on the housing development industry which exacerbate the already serious problem of housing costs exceeding affordability. The Treasurer should call for a moratorium throughout the Provincial Government -- and in all municipalities -- on any new regulations that might tend to be inflationary.

The word should go out, across the board, that in order to give the housing industry at least a chance to recuperate and resume its role as a major contributor to the Provincial economy, the only new regulations to be considered should be those whose effect will be to reduce costs.





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